

COMMITTEE ON JOINT SCHOOL BUILDINGS

April 3, 2007

5:00 PM

Chairman Beaudry called the meeting to order.

The Clerk called the roll.

Present: School Committee Members Beaudry and Gelinas; Aldermen Roy and Long

Absent: School Committee Member Herbert; Alderman Thibault

Mssrs: T. Pappas, A. Jefferson, B. Sanders, R. Sherman

Under the provisions of RSA 91-A:31(c), the Committee went into non-public session, a roll call vote having passed unanimously.

Chairman Beaudry stated I would like to entertain a motion that the minutes of the non-public session be sealed and divulgence would render the proposed actions ineffective; it would reveal privileged communications between the Committee and its counsel.

On motion of School Committee Member Gelinas, duly seconded by Alderman Long, it was voted to re-enter public session.

A roll call vote was taken. All School Committee Members present and all Aldermen present voted yea.

Alderman Long stated Mr. Chairman, I'd like to make a motion to authorize the City Highway Department to take any action necessary or advisable to complete work identified by the City as within the scope of the Gilbane Design Build, Contract, or to correct any such work that is defective and to charge the Gilbane Design Build Contract for all costs associated with such work that is defective, in an effort to protect life safety and other school project work. The motion was duly seconded by School Committee Member Gelinas. There being none opposed, the motion carried.

3. Update on the School Facilities Improvement Project (Monthly Report – April 2007).

Mr. Allan Jefferson, DMJM, stated all right, I'll just update you on the last 30 days of activity. At West High School, they installed EBU's in the gymnasium and also replaced some of the duct work on the roof. They continued with punch list items over at Memorial and Central, and miscellaneous MEP items. At Hillside Middle School they are also doing some final MEP, and door hardware replacement and installation. At Southside they're doing something with the dampers and ceiling mechanical systems and at Bakersville, as was reported last month, additional heating was installed by the City. Outside of that, it's just miscellaneous punch work elsewhere.

Alderman Long stated just for clarification, you gave us March 1st to March 28th. Okay, then upcoming activities you have...from the month you just reported there's eleven schools that are just on punch list right now - eleven elementary schools - that the only work for these eleven are punch list.

Mr. Jefferson stated yes, that's as reported by our inspectors. Gilbane hasn't been forthcoming with a schedule, so we just have to do our best to report what work we've observed.

Alderman Long stated okay, so then on the upcoming activities where...

Mr. Jefferson stated the upcoming activities is our best guess at what may happen. Gilbane has refused to provide us with a schedule for a number of months. I believe the last schedule we got was May of 2006.

Alderman Long asked would it help out this Committee if, within the punch list, we had a list of safety issues or issues that may be detrimental to student activity, you know, to student learning ability, what have you, like noises or...so that we could begin maybe to prioritize if...I don't know if you understand the question.

Chairman Beaudry stated I know the noise is definitely a concern. When I walk through the schools that's one of the biggest concerns with the teachers and the principals, the noise level at the schools with the new ATAC systems. They're working on trying to quiet that down but it's still a big concern in a number of our schools. That's the situation we're looking at, to get punch lists of items that actually inhibit the learning ability of the students.

Alderman Long stated my hopes is by September of '07 we have what we feel is a priority addressed, however we're going to address it.

Mr. Jefferson stated I think we can look at some of these items but I don't want to get into a situation where we're determining what affects learning and what doesn't. Reportedly, the entire reason for the project is to improved the learning environment and all the items that we're talking about are contractually required to be done by Gilbane. With that being said, yes you could probably still prioritize, but I don't want to start talking about what affects learning and what doesn't.

Alderman Long stated okay, I understand that. What I'm asking though is a...I mean I'm not asking to determine what affects the education process, but the School Committee Members could figure some of that out. I'm sure some of the punch list is whatever, painting, things that...so, I mean we know those aren't...although they've got to be completed...

Mr. Jefferson stated we will look at it.

Alderman Long stated thanks.

Chairman Beaudry stated a couple of issues...Does anyone else have any questions on this? I want to have a motion on that before we move on to anything else.

On motion of Alderman Long, duly seconded by School Committee Member Gelinas, it was voted to accept the report and forward it to the Board of Mayor and Aldermen for informational purposes.

4. Communication from Randy Sherman, Deputy Finance Officer, submitting an updated financial report on the school renovations project as requested by Alderman Roy.

Chairman Beaudry stated we have Mr. Sanders here, the new Business Administrator. Welcome, Mr. Sanders. And we also have Randy Sherman, Deputy Finance Officer, in the room, and you guys have the floor.

Mr. William Sanders, Business Administrator, stated first, we just wanted to walk through just what the current cash balance is as of the end of March in the construction account. The cash balance is \$10.3 million. You can really identify the \$10.3 million to about five or six different major categories. The first is the amount that we've retained from Gilbane that you've talked about earlier this evening. It's about \$3.9 million, almost \$4 million. We also have in the account

what we're calling here Excess Interest Earned. When we originally got the project approved, we had an assumption about the interest that was going to be generated by the project funds as the draw down worked. We exceeded that interest projection, and there's an involved arbitrage calculation that you have to go through to see if we have to return some or all of that excess interest to the IRS. So, that money needs to be set aside until this calculation is finalized. We have some payables that have been processed but not yet cleared the bank. The trustee has to reimburse the City of Manchester General Fund for expenses that we've paid on behalf of the project. We have an encumbered amount for the remaining Gilbane work of \$5.3 million, and obviously that's above and beyond the retainage that's listed up above. We also have an encumbered amount for the DMJM work that remains of about \$904,000. We have a reserve for general liability and workers comp losses on the project, as prepared by Liberty Mutual, for about \$220,000 remaining. Then the bracketed number at the bottom means that if you add up all of the identified amounts, we are short by \$709,000 in the cash account. What I've not included in the cash account is the \$1.5 million deposit that we have at Citizens Bank securing the OCIP program. Obviously, and I'm sure we will ultimately be successful at getting that \$1.5 million, we'll have a surplus in the account of about \$700,000. Folks have been working through the day to finalize a couple of these numbers. They've moved them around maybe a little bit, I would say maybe in the \$30,000 to \$40,000 range. And we might help to make this monthly report to the Committee that you would be able to follow the cash balances. But right now, without the LC money, \$1.5 million, it would be imprudent and reckless to spend this money.

Chairman Beaudry stated Bill, I have a question on liquidated damages. There was \$1.5 million retained for liquidated damages. Is that part of the \$3.9 million retainage of Gilbane or is that separate?

Mr. Sanders responded I believe that's included in the encumbered amount.

Mr. Sherman stated it's not in the retainage.

Chairman Beaudry asked so it's over and above?

Mr. Sherman responded yes.

Alderman Roy stated so right now, in looking at the encumbered amount remaining for Gilbane work and the amounts retained from Gilbane, there is roughly a little over \$9 million outstanding in this contract. The Trustee Reimbursement Requisition 3738...Who's the trustee?

Mr. Sanders responded that is J.P. Morgan.

Alderman Roy asked that's income to the City?

Mr. Sanders responded yes, for the expense of the project.

Alderman Roy asked and when that comes back into the City, where does that get put?

Mr. Sanders responded I think it goes right into the General Fund.

Mr. Sherman stated \$10.3 million is the balance that is at the trustee for the project account. The \$238,000 is actually a deficit in the General Fund operating cash. We've already cut the checks; the trustee hasn't reimbursed us for them. We pay the bills; the trustee has the money because it's the money for the project. Right now the cash is actually \$10.1 million, if you take the negative in the operating and the \$10.3 million in the construction. Once we're reimbursed, it clears, which is what we're trying to show.

Alderman Roy stated one of my concerns, and I'm thinking that's why I requested this, something like the excess interest earned, could we get a breakdown of anything that's come back to the City or been retained by the City or refunded to the City that has gone to the General Fund and not back into project dollars? I guess that's where I'm confused on the reimbursement requisition from J.P. Morgan. Correct me if I'm wrong, but it sounds like they have the bank account, we write the bills, when they go ahead and get our requisition, they send us those dollars. So, J.P. Morgan's is reimbursing the General Fund for expenditures.

Mr. Sherman stated correct.

Alderman Roy stated and then the excess interest earned, the money that we are allowed to keep, where does that end up at the end of the day?

Mr. Sherman responded that's in the fund and that's spent for the project, and if we went to the next schedule, the HTE...

Chairman Beaudry stated I just want to get it clear in my mind before we move off this page, but it seems like we're, unless I'm completely confused here, that some of this is revenues coming in from interest and some are expenditures, on this sheet that you just handed out. The Excess Interest Earned, that's interest earned on the money that's sitting in the account?

Mr. Sherman responded that's correct.

Chairman Beaudry asked do you add all this up?

Mr. Sanders responded yes. Sorry for the confusion. The first number is the cash that was in the bank on the 31st of March, \$10.3 million. Then I was apportioning the money, the \$10.3 million, into these various categories, so you can understand where it's coming from and if in fact it's a real liability, and what we know definitely is. So yes, the numbers below the \$10.3 million add up to \$10.3 million.

School Committee Member Gelinas asked the excess liabilities are shown on that sheet as potential liability and so you can further understand if there are any arbitrage issues?

Mr. Sanders replied correct, that's right. As I understand it, and Randy could speak volumes on this, we don't really do the arbitrage calculation in its final form until the contract is completed.

Chairman Beaudry asked now the contingency shortfall, is that the contingency as we know it for additional work to be done?

Mr. Sanders responded correct. And once again, if you add the letter of credit, and we are going to do some work in the next 30 to 45 days with the City's Risk Manager to see just exactly what is required here in the refunds letter of credit. To the extent we recover the letter of credit, that money will go into a fund and that will put you in a surplus of about \$700,000-\$800,000, for monies that would be available to you. In the scheming of how we spend money, we just need to be careful.

Alderman Long stated okay, when I added up the amounts you paid for Gilbane all the way down to Liberty Mutual GL & WC Losses, it adds up to eleven...whatever. Then you minus the \$10,301,522 which gives you the \$709,718 correct?

Mr. Sanders stated that's correct.

Alderman Long stated I don't understand the shortfall. When I add all this up, it gives me eleven thousand...

Mr. Sanders stated that's right. It gives you eleven million and change. And that's in excess of what's in the bank, what we have available to spend on the project. So we're \$700,000 short, so to speak. The main opportunity we have is the letter of credit and also managing our other expenditures.

Alderman Long asked the \$1.5 million deposited in Citizens Bank is just toward the offset?

Mr. Sanders responded yes, we were required in order to attain the offset policy to provide a letter of credit of \$1.5 million, and to get that we had to take \$1.5 million out of the project to put in escrow at Citizens Bank.

Alderman Long asked so we actually deposited \$1.5 million?

Mr. Sanders responded yes we did. We've gotten a little bit back. I think maybe they relieved maybe \$100,000 - \$150,000. But it's earning interest, and we'll get into this arbitrage calculation and we'll also include the letter of credit. We took \$1.5 million out of the project fund to fund the letter of credit, and now since we're funding the workers comp and general liability losses through the account...you see that \$229,042? You would think to the extent if we were paying that, you'd at least relieve the account by \$220,000, and one would have to look at all of that.

Alderman Roy stated Bill, I'll let you go because you're going to explain the HTE. My questions are going to go to the investment funds and interest, and if you want to elaborate on where it is and what we're getting, and what type of return would be great.

Mr. Sanders stated first off, we handed out a schedule that is a revised HTE schedule from what you received in your agenda material. The numbers are significantly different, solely because we have now reported encumbrances for all the outstanding Gilbane or DMJM work and tried to take the items we've identified on the cash account and we've encumbered that money in the basic general ledger. So if you look in the southeast corner of this schedule you'll see that this is showing a surplus of about \$685,556 on it. That's because the letter of credit is not in this account. If you deducted the \$1.5 million you would flip around and be showing a deficit of about \$700,000. But just from in terms of what Mr. Clougherty is managing and that sort of thing, the letter of credit is not incorporated in this. I'll quickly just walk down these line items and touch on them as briefly as you want me to. The first line is the premium on the original bond payable that was part of the compliance at the time that the bonds were issued. They were issued at a premium of \$7.4 million. The original bond proceeds of \$101,410. The original assumed interest earnings, as I mentioned before, was \$2,494,369, and we surpassed that number sometime in calendar '06. At this point, all that money is being saved, so to speak, as I mentioned earlier, in the cash account, because we're not authorized to spend it due to this IRS calculation.

Mr. Sherman stated undoubtedly that number will grow. If you just think about it, there's ten million dollars in that bank account earning interest today and it will earn interest tomorrow. Since we've already maxed out our interest, all that additional interest income will have to be deferred until this arbitrage calculation is done.

Chairman Beaudry asked what type of interest are we receiving on that, do you know?

Mr. Sherman stated it's about four percent. We need to keep those dollars fairly liquid so it's just in like Treasury bonds.

Alderman Long stated what you're saying is we don't know what we owe in taxes so we need to keep that aside; we can't spend that until we get a better determination of what we owe.

Mr. Sherman stated we're hoping to have one done at the end of this fiscal year; we will take this temperature reading at June 30th - where we are, and obviously the bulk of the \$109 million will be spent at that point, so we should have a better feel.

Alderman Long asked will you give us a determination after the project?

Mr. Sherman responded yes. You have to go all the way to the end and the last dollar spent and here's what you earned, and here's what you're allowed to earn.

Alderman Roy asked so that amount, excess interest earned, it's just going to be a surplus to the project when all is said and done?

Mr. Sherman responded yes. And some of that does not have to be given to the IRS. It will probably just go to debt service because the project will be concluded.

Chairman Beaudry asked it wouldn't go into contingency? It would go right to the debt service?

Mr. Sherman responded yes. If you figure the timing of the situation, maybe after June when we've taken an assessment of whether it's wildly too high or not. It's a practical matter; we're going to have to keep running in there until the very end.

Alderman Roy asked Other Revenue, \$1.15 million?

Mr. Sherman responded the Other Revenue is made up of basically two items. The first is a \$900,000 payment that was made back in fiscal 2004 or thereabouts. That's when we started collecting capital tuition from Bedford and we moved \$900,000. We meant to put it into the actual bond payment account, not in the project fund. It ended up in the bond payment account. If you look down below, there's a transfer out of \$900,000. The other \$252,000 was money that the Manchester School District paid into the fund to pay for certain change orders or additional work. We did some work in the school food nutrition area and some other areas, and the District paid for that.

Chairman Beaudry asked what is the...on the bottom...the Construction Contracts, \$3.59 million? That was actually the budgeted amount and the actual is \$3.581 million. What is that associated with?

Mr. Sherman stated if you look at the top, you'll notice that there's two bond proceeds. There's the \$101 million and then the \$3.59 million. We actually sold the \$105 million in two different pieces. So if you look down at the bottom, the \$3.59 million that you're looking at is that second bond. Not to complicate things, but if you actually look over to the left you'll notice there's different numbers: one is in 0302 and the other starts with 0303. They're just two different bond sales, so they, in essence, have two different budgets. But in total, that's your whole project.

Alderman Long asked the capital tuition, does that get credited to this project, by any chance?

Mr. Sherman responded no, it does not. All of the capital tuition is directly earmarked to service of bonds. It is directed to debt service. In fact, when we collect it, when the School District collects it, it immediately gets transferred into the debt service account.

Chairman Beaudry stated and we are using some of that bond money in this budget.

Alderman Long asked debt service to this bond?

Mr. Sherman replied yes. These are revenue bonds that were issued and the revenue component was this tuition.

Chairman Beaudry stated I believe they paid, what, 40% of any renovations.

Alderman Roy stated we've got our full Board meeting in thirteen minutes.

Chairman Beaudry stated I just want to go on record on a couple of issues that were brought to the School Safety Committee by Mr. Clougherty, as far as the door handles on Southside, and fire doors and elevators at Central High School. What is he actually taking on?

Mr. Clougherty stated we're undertaking the work regarding the elevators at Central High School. We've instructed Gilbane about efficiency and we're looking for some information from them as to corrective action that's taken. We're going to be undertaking some of the work to fix the doors identified at Southside Middle School.

Chairman Beaudry stated the third issue was Hillside, no, I'm sorry, Hallsville.

Mr. Clougherty stated I understand a work order has been called into my department, so I'm hopeful that that will be addressed before long.

Chairman Beaudry stated just again, one thing on the record, that I hope you guys are working on, is...I was at Central today looking at their courtyard and the stairwell coming out of the Classical. They've put some patchwork on those stairs and they never were done right. I've raised this issue on several occasions where on the faces of the stairwells, rocks are showing, and on the top stair coming out of the northwest stairwell in the rear going to the courtyard just has cement on the top. I don't know what they were covering, but students are tripping on that because it's not flat with the tread of the stairs. And again, the courtyard, I don't know what they plan on doing, but looking at the War Memorial, that was in pretty dismal shape, and it looks like there's still water puddling around the War Memorial. It was full of sand and I know that's one thing that Dr. Kehas has been very concerned with. I hope that something that's going to get done in that courtyard because between the cracking of the concrete, the stairwells, and the War Memorial, there are some pretty big issues there.

There being no further business, on motion of School Committee Member Gelinas, duly seconded by Alderman Long, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee